

Export versus FDI with market potential : evidence from France

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Abstract

The theory of multinational corporations now incorporates within-industry firm heterogeneity. A large number of studies deal with the sorting of firms productivity according to the way firms provide foreign countries. We extend Helpman, Melitz and Yeaple (2003) to allow for variable price demand elasticity and obtain general predictions that encompass other papers such as Head and Ries (2002). We test implications of this model using firm level data of the French National Institute of Statistics (INSEE). Both FDI and exports at the firm level with destination country are available. We rely on Olley Pakes method to build a correct measure of Total Factor Productivity (TFP) and use TFP thresholds to calculate market potential that are consistent with our framework. We are then able to point out interactions of TFP and market potential on the probability to conduct FDI rather than exporting. The results support our extension of the HMY model : the impact of productivity on the probability to conduct FDI is not linear, and countries with larger market potential always tend to receive more FDI.